

Message Text

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64

ACTION EA-14

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SUBJECT: MINFINANCE ANNOUNCES NEW LOAN FOR US DOLS 400 MILLION

REF: A WELLINGTONS 2260 B WELLINGTONS 2784

1. ON SEPT 18 THE NEW MINISTER OF FINANCE, R J TIZARD GAVE THE LONG AWAITED NEWS OF AN INTERNATIONAL LOAN FOR US DOLS 400 MILLION. THE AGREEMENT FOR A MULTI-CURRENCY CREDIT WAS MADE WITH A SYNDICATE OF MAJOR INTERNATIONAL BANKS THROUGH LLOYDS BANK OF LONDON. SEVERAL U.S. BANKS, INCLUDING BANK OF AMERICA, MORGAN GUARANTY TRUST, SECURITY PACIFIC AND MEMBERS OF BANKING MANAGEMENT GROUP ARE INCLUDED. THE LIFE OF THE AGREEMENT IS FIVE YEARS.

2. GNZ WILL BE ABLE TO DRAW ON THE CREDIT, REPAY AND REWITHDRAW FUNDS DURING THIS PERIOD. IT HAS THE RIGHT TO CANCEL THE LOAN IN WHOLE OR IN PART.

3. INTEREST RATE WILL BE 1 PERCENT ABOVE THE LONDON INTERBANK RATE.

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4. BETWEEN END MARCH 1972 AND END MARCH 1974 WHEN

NZ ENJOYED GREATLY INCREASED FOREIGN EXCHANGE EARNINGS
GNZ UNDERTOOK TO REPAY NZ DOLS 190 MILLION OF ITS FOREIGN
DEBT, THUS REDUCING FOREIGN DEBT TO NZ DOLS 465 MILLION-
ABOUT 5 PERCENT OF GNP. INTEREST PAYMENTS THUS
ABSORBED LESS THAN 2 PERCENT OF NZ'S EXPORT INCOME.

5. ACCORDING TO MINFIN MUCH OF CREDIT DRAW-DOWN
WILL BE TO FINANCE DEVELOPMENT PROJECTS SUCH AS
ELECTRICITY GENERATION, FARMING, RAILWAYS AND TELE-
COMMUNICATIONS AND SIMILAR PROJECTS.

6. COMMENT: WITH THE PRIVATE IMPORT PAYMENTS STILL
ON THE RISE (ALBEIT AT A DECREASING RATE) AND THE DROP
IN EXPORT RECEIPTS FOR WOOL AND MEAT CAUSING INCREASING
CONCERN, THE ANNOUNCEMENT OF THIS LOAN WILL BE RECEIVED
WITH SOME RELIEF. WHETHER THE TOTAL OF NEW FOREIGN LOANS
(SEEREFETELS) WILL BE SUFFICIENT TO TIDE NZ OVER
UNTIL ITS EXPORT RECEIPTS AND IMPORT PAYMENTS COME MORE
INTO BALANCE REMAINS TO BE SEEN. IT WILL, IN ANY CASE
PROVIDE A BIT MORE CUSHION AND TIME TO SLOW THE CURRENT
DRAIN ON NZ'S DWINDLING FOREIGN EXCHANGE HOLDINGS. NO
DOUBT OTHER GOVERNMENT MEASURES ARE IN THE OFFING TO
REDUCE FOREIGN EXCHANGE LOSSES. WITH THE NEW PRIME
MINISTER HAVING ANNOUNCED GREATER ATTENTION TO DOMESTIC
(READ ECONOMIC) MATTERS AND THE NEW MINISTER OF FINANCE,
IN STATEMENTS HE HAS MADE SINCE ASSUMING HIS NEW PORT-
FOLIO, SHOWING SIGNS OF A TOUGHER-MINDED APPROACH TO
NZ'S ECONOMIC PROBLEMS (MOSTLY INFLATION AND ADVERSE
BALANCE OF PAYMENTS) AND WITH THE ELECTION PERIOD
DUE TO GET UNDER WAY IN ABOUT NINE MONTHS(AND THE
LEADER OF THE OPPOSITION ACTING MUCH LIKE IT HAS ALREADY
STARTED), IT IS BECOMING EVIDENT THAT THE LABOUR GOVERNMENT
IS INCREASINGLY AWARE OF ITS PREDICAMENT. HOW GOOD ITS
PERFORMANCE IS IN THE ECONOMIC SPHERE IN THE NEXT YEAR CAN
SPELL RE-ELECTION OR DEFEAT IN NOVEMBER 1975. IN THE MAN-
TIME THE GOVERNMENT IS WATCHING ANXIOUSLY THE COURSE OF
INTERNATIONAL ECONOMIC TRENDS AND ESPECIALLY THE PRICES FOR
ITS PRINCIPAL FOREIGN EXCHANGE EARNERS, WOOL, MEAT AND
DAIRY PRODUCTS. IF THE PRICES FOR WOOL AND MEAT DON'T IMPROVE
AFTER THE TURN OF THE YEAR-AS PREDICTED (HOPEFULLY) BY
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GOVERNMENT AND SOME OTHER INTERESTED CIRCLES, THE BENEFICIAL
EFFECTS OF THE US DOLS 400 MILLION LOAN WILL ONLY PROVE TO BE
EPHEMERAL AND THE HIGH INTEREST RATES WILL ADD TO ITS UNTER-
NATIONAL FINANCIAL BURDEN.
SELDEN

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